

# RatingsDirect®

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## Summary:

# New Bedford, Massachusetts; General Obligation; Non-School State Programs; Note

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## Summary:

# New Bedford, Massachusetts; General Obligation; Non-School State Programs; Note

### Credit Profile

US\$35.81 mil GO BANs ser B dtd 04/14/2022 due 04/13/2023

<i>Short Term Rating</i>	SP-1+	New
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US\$7.825 mil GO state qualified municipal purp loan ser 2022 due 04/01/2051

<i>Long Term Rating</i>	AA/Stable	New
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<i>Underlying Rating for Credit Program</i>	AA-/Stable	New
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New Bedford GO state qualified municipal purp loan ser 2022 due 04/01/2051

<i>Long Term Rating</i>	AA/Stable	Rating Assigned
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<i>Underlying Rating for Credit Program</i>	AA-/Stable	Rating Assigned
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New Bedford GO BANs ser B dtd 04/14/2022 due 04/13/2023

<i>Short Term Rating</i>	SP-1+	Affirmed
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## Rating Action

S&P Global Ratings assigned its 'AA' long-term rating and 'AA-' underlying rating for credit program to the city of New Bedford, Mass' \$7.8 million general obligation (GO) bonds and assigned its 'SP-1+' rating to the city's \$35.8 million Series B GO bond anticipation notes (BANs). In addition, S&P Global Ratings also affirmed the city's 'AA-' underlying rating on its outstanding GO bonds and its 'SP-1+' short-term rating on its outstanding GO BANs. The outlook, where applicable, is stable.

The short-term rating reflects our opinion of New Bedford's general creditworthiness and market-risk profile, which we consider low. The low market-risk profile reflects our view of the city's strong legal authority to issue long-term debt to take out the notes and its ongoing disclosure to market participants.

The bonds and notes are a full faith and credit obligation of the city of New Bedford, subject to the limitations of Proposition 2-1/2. We rate the city's underlying rating at the same level with our view of New Bedford's general creditworthiness. Additional security on the bonds is provided through the bonds' participation in the Massachusetts' qualified bond program. We rate issuances under this program on par with our issuer credit rating on Massachusetts, reflecting the commonwealth's commitment to pay debt service on behalf of eligible participants from legally available funds. There is no appropriation risk related to the debt service payment.

Management plans to use the bond and note proceeds to fund various capital projects, including public safety, communications, infrastructure, and school renovation projects in the city.

### Credit overview

The rating reflects our opinion of the city's continued economic expansion beyond its historical status as a fishing port and home to the largest fishing fleet on the East Coast. During the past several years, New Bedford has seen economic

development in the offshore wind industry, dining, and hospitality industries. Residential development has increased, with over 450 housing units expected to come online. The city's prudent management practices have produced solid and predictable financial results, through fiscal 2021. Its reserve position increased modestly in fiscal 2021, as a result of the general fund surplus. Management expects that operating results for fiscal 2022 will be balanced, similar to the prior year results. Although the city faces challenges from long-term retirement liabilities, and remains vulnerable to potential decreases in state aid, we expect the financial profile to remain stable. Management's ongoing efforts to expand the economy, focus on cost reductions, as well as federal receipts should foster stability in the credit profile.

The long-term rating reflects our assessment of the following factors for the city:

- Three fiscal years of modest growth in reserves and in the general fund in fiscal 2021;
- Very strong management and strong institutional framework;
- Local economy that while adequate, is gaining advantage from access to a broad and diverse metropolitan statistical area and diversifying tax base; and
- Manageable debt but with large pension and other postemployment benefit obligation liabilities.

### **Environmental, social, and governance**

We analyzed the city's social risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard. As it is a port city on the Atlantic coast, New Bedford is exposed to elevated environmental risks, notably hurricanes, wind, inland flooding, and sea-level rise. Using federal grant monies, the city is building a hurricane barrier in the city's harbor to mitigate potential damage from flooding risk, among other resiliency measures. The city's resiliency plan is monitored continually and formally updated every five years. Furthermore, we believe that management is taking steps to mitigate cybersecurity risks.

## **Stable Outlook**

### **Downside scenario**

We could consider a negative rating action if a trend of general fund deficits emerge, or if the city's reserve position declines from current levels during the next one to two years.

### **Upside scenario**

While we do not expect to raise the rating during the next two years given our view of the city's wealth and economic indicators, we could consider a positive rating action if management records a trend of increasingly robust general fund surpluses and increases the city's reserve position to levels we consider commensurate with those of a higher rating.

## **Credit Opinion**

### **Diverse tax base and steady valuation increases**

In recent years, New Bedford has worked to redefine its local economy which had centered around its fishing port and manufacturing historically. While the fishing industry continues to thrive, the city has looked to develop in other

industries. Vineyard Wind, a New Bedford-based offshore wind development company, is constructing a commercial offshore wind turbine project 14 miles off the coast of Massachusetts. This project will use the terminal in New Bedford's harbor to house the onshore components of the project. Management anticipates that this project will benefit the community by bringing operations, maintenance, and port services jobs, as well as increasing the need for additional hotels, housing, and services for the new employees.

New Bedford continues to see expansion and development in other areas, such as housing in redeveloped historic mills, construction companies, and industrial park development. Given management's hands-on approach to economic development, we expect that the city's tax base will continue to expand. The city is also well-positioned to make great strides over the medium to long term if the marine terminal or business park projects stimulate other major developments. We expect wealth and income metrics to remain somewhat challenged despite anticipated growth in the tax base.

### **Very strong, established financial policies and practices**

Our view of the city's management reflects financial practices that are well-established and likely sustainable, with long-term planning as a key focus. Other strengths of the city's financial policies and practices under our Financial Management Assessment include:

- Realistic revenue and expenditure assumptions derived from historical data and guided by trend analysis;
- Quarterly reporting of budget-to-actuals to the city council;
- An annually updated five-year capital plan that identifies projects and funding sources;
- A formal investment policy with quarterly reporting;
- A written debt management policy that identifies affordability and capacity targets; and
- A reserve policy with stabilization reserve balance targets of 2%-6% of the current year's general fund budget and 25% of free cash to be transferred to the stabilization fund and 10% to the other post-employment benefits (OPEB) trust fund.

### **Stable financial profile with modest growth in reserves and very strong liquidity**

Overall, we view New Bedford's financial profile as stable. Fiscal 2021 and fiscal 2020 audited results remained positive, though at more modest levels compared with previous years. As a result of prudent management, available reserves (including the stabilization fund) grew modestly in fiscal 2021 to 6.9% from 6.7% in fiscal 2020.

New Bedford may be somewhat susceptible to state-aid decreases over time, since intergovernmental revenue accounts for 59% of general fund revenue and 57% of total governmental funds revenue. Management expects state aid to increase during fiscal year 2022, which when combined with \$83 million in American Rescue Plan (ARP) receipts, should support the city's return to at least balanced operations in the general fund. The city has nearly \$4 million in levy capacity, which provides some additional flexibility in raising revenues.

Property taxes generate 33% of general fund revenue, and property tax collections remained near 98% in fiscal 2021. Additionally, while pension and OPEB carrying charges totaled 7.3% of total governmental funds expenditures in fiscal 2021, if these costs increase, they could further pressure the budget.

In our opinion, New Bedford's liquidity is robust, with strong access to external liquidity, if necessary. ARP receipts have also bolstered the city's cash levels in fiscal 2021. New Bedford is a regular market participant that has issued debt frequently over the past several years, including GO bonds and BANs. The city does not have any variable-rate or direct-purchase debt, nor does it have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

### Manageable debt levels but large pension and OPEB liabilities

With this issuance, the city will have about \$320.1 million in total direct debt outstanding. We expect that it will issue debt in line with its capital improvement plan during the next few years. We do not expect its current debt plans to change our view of the overall debt profile, as we expect new-money debt will be equal to or less than principal paydown over the next several years.

### Pension and OPEB costs could rise over the long-term

- In our opinion, a credit weakness is New Bedford's large pension and OPEB obligation, without a plan in place that we think sufficiently addresses the obligation.
- The pension plan uses an actuarially determined contribution, which we view as positive, but the underlying assumptions are somewhat weak and could lead to volatility and cost escalation.

As of June 30, 2021, New Bedford participates in the following pension plan:

New Bedford Contributory Employees' Retirement System, funded at 54.1%, of which it represents 100% of the total system liability and contributions, and a proportionate share of the net pension liability of \$348.3million.

The plan's discount rate is 7.50%, and the pension funding target is 2035. We believe costs are likely to rise, given the low funded ratio, and the elevated discount rate could result in contribution volatility.

New Bedford also provides OPEB in the form of health and life insurance to eligible retirees and their dependents. The OPEB trust fund currently has a balance of about \$3.3 million. The city's net OPEB liability is \$638,433 million. New Bedford's OPEB trust funding policy is to contribute at least 10% of certified free cash to the trust each year; in 2021, it contributed \$581,000. We expect the city's retirement liabilities to remain significant in the short to medium term, with annual costs potentially accelerating and pressuring the budget as the city approaches 2035.

New Bedford, Massachusetts Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
<b>Weak economy</b>				
Projected per capita EBI % of U.S.	74			
Market value per capita (\$)	76,374			
Population			96,739	96,526
County unemployment rate(%)			10.2	
Market value (\$000)	7,388,365	7,090,489	6,672,738	
Ten largest taxpayers % of taxable value	6.3			

## New Bedford, Massachusetts Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		0.3	0.6	0.4
Total governmental fund result % of expenditures		0.1	(2.7)	1.0
<b>Adequate budgetary flexibility</b>				
Available reserves % of operating expenditures		6.9	6.7	6.0
Total available reserves (\$000)		28,378	25,872	21,831
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		21	12	8
Total government cash % of governmental fund debt service		468	268	151
<b>Very strong management</b>				
Financial Management Assessment	Strong			
<b>Weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		4.6	4.6	5.1
Net direct debt % of governmental fund revenue	47			
Overall net debt % of market value	3.3			
Direct debt 10-year amortization (%)	50			
Required pension contribution % of governmental fund expenditures		7.2		
OPEB actual contribution % of governmental fund expenditures		0.1		
<b>Strong institutional framework</b>				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

## Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

## Ratings Detail (As Of March 8, 2022)

New Bedford GO st enhancement prog		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed
New Bedford GO st qual mun purp loan bnds		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed
New Bedford GO BANs ser 2021 dtd 02/16/2021 due 04/15/2022		
Short Term Rating	SP-1+	Affirmed
New Bedford GO State Enhancement Prog		
Long Term Rating	AA/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	

**Ratings Detail (As Of March 8, 2022) (cont.)**

<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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